

# TAX PLANNING: THE RULES OF GIFTING

*Careful planning to pass more on to your loved ones.*

# THE RULES OF GIFTING EXPLAINED

Many people are not aware of the long list of rules, exemptions and allowances when it comes to gifting assets to your loved ones, which actually takes a lot of careful planning to do so tax-efficiently.

Tax planning is a complex subject, and can be even more challenging when families, emotions and the loss of a loved one are involved. Although this is not something that many of us wish to dwell on, planning towards an eventual passing of assets can ensure that your loved ones benefit as you wish when you pass away.

A key area of Inheritance Tax (IHT) planning is making the most effective use of gift allowances. Understanding these thresholds and exemptions can allow you to pass on more of your wealth whilst avoiding further IHT liabilities in the future.

The gift allowance – currently £3,000 - has not increased since 1981 when this amount was enough for a 10% deposit on the average London property. Whilst the gift allowance may no longer constitute a significant amount, it should still be an important area of consideration when minimising potential IHT liabilities.

## Did you know...?

HMRC collected £6.1bn of Inheritance Tax (IHT) in 2021 (Source: HMRC 2023).

Gifting can reduce your IHT liability by decreasing the size of your estate. On an emotional level, gifts also let you experience the pleasure of giving and bringing joy to your loved ones at the same time.

However, with tax, it is never simple. There are rules around gifts that need to be considered. For example, in some instances it takes a full seven years for a gift to become tax-free. It is worth thinking about giving earlier rather than later, as giving when you are younger can increase the chances of surviving seven years after the gift was given.

This chart shows how IHT on gifts decreases over time. If the person making the gift passes away before seven years have passed, IHT is due. After seven years, there is no IHT due.

Years between gift and death	Tax paid
Less than 3	40%
3 to 4	32%
4 to 5	24%
5 to 6	16%
6 to 7	8%
7 or more	0%

*Please note: The tapering of the Inheritance Tax on gifts is applicable for any gifts over the Nil Rate Band. For how this applies to you, speak to your independent financial adviser.*



# GIFTS AND EXEMPTIONS

## UK Domiciled Spouses & Civil Partners

Gifts between spouses and civil partners are exempt from IHT both during their lifetime and on death. If the death estate of the first to die is passed in full to the survivor, this essentially means that the IHT liability is deferred until the second death.

## Annual Gift Exemption

One of the most basic ways to avoid IHT is to ensure you make use of the £3,000 gift allowance. £3,000 in assets or cash (or a combination of both) can be gifted annually, either as a single gift or as several gifts adding up to that amount, without incurring IHT. If no gifts are made in one year, or less than the £3,000 amount is gifted, the unused balance can be carried forward to the next tax year.

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